RICHARD RUSSELL'S DOW THEORY LETTERS INCORPORATED

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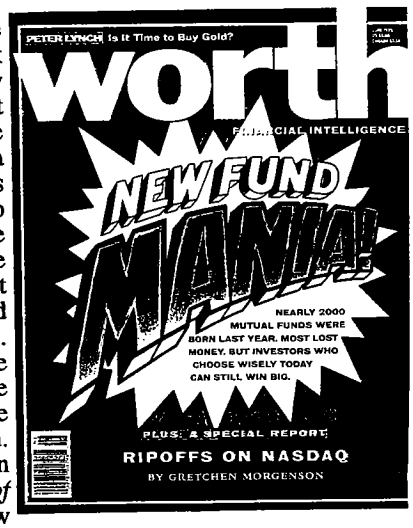
June 21, 1995 **LETTER 1176**

June 9 DJIA 4423.98; PTI 4141; A-D Ratio -5.90
June 16 DJIA 4510.79; PTI 4161; A-D Ratio -5.44
Dow Yield: 2.46%; Dow Price/Earnings: 15.6
Dow 200-day MA: 4003; Dow 30-day MA: 4421
Dow Times Book Value: 4.03; PTI 89-day MA: 4074
Percentage of Undervalued Blue-chips: 6%
Gold 200-day MA: 385.08; Gold-PTI: 749

THE MARKET: On June 12 Japan's **Nikkei** stock average finally cracked below the 15,000 level to close at 14,813, a three-year low. The Japanese market has now lost a staggering two-thirds of its 1989 peak value. I continue to be amazed that the Japanese market can be caught in the throes of a vicious bear market while the US stock and bond markets continue to thrive. Live and learn; it's a new one in my book. Remember, the Japanese economy is the second largest in the world. Furthermore, Japan has been the *world's greatest exporter of capital.* But Japan is now repatriating capital as it seeks to reliquefy.


PETER LYNCH Is It Time to Buy Gold?
worth
FINANCIAL INTELLIGENCE
NEW FUND MANIA!
NEARLY 2000 MUTUAL FUNDS WERE BORN LAST YEAR. MOST LOST MONEY. BUT INVESTORS WHO CHOOSE WISELY TODAY CAN STILL WIN BIG.
PLUS: A SPECIAL REPORT
RIPOFFS ON NASDAQ
BY GRETCHEN MORGENSON

* *

A genius on Wall Street is an analyst who repeats "buy, buy, buy" in a steadily rising market. Which means that 1995 has spawned a lot of Wall Street geniuses. Over recent months it seems that almost every financial magazine and newspaper has become a review-guide or cheerleader for mutual funds. My own opinion is that the situation has reached the point of absurdity, with new funds being brought to market literally on a daily basis.

Last week a retired (and optimistic) member of a NYSE firm visited me and asked, "Russell, don't you think that this time it really is different?" I answered, "Yes, the world is certainly different; it's a lot different than it was in 1966 or 1937 or 1929. *But it's human nature that remains the same.* People are still ruled by greed and fear. I don't care how advanced computers become, I don't care how rapidly information is transmitted, I don't care what new medical methods are created, investors still become too greedy at bull market tops, and they still become too gloomy at bear market bottoms."

Show me that human nature has changed, and I'll be the first to agree that "this time it's different." But as long as people are willing to pay outrageous prices for stocks at one end of the cycle and as long as people are driven to dump investment-grade blue-chip stocks at the other end of the cycle, we will always have primary bull and bear markets.

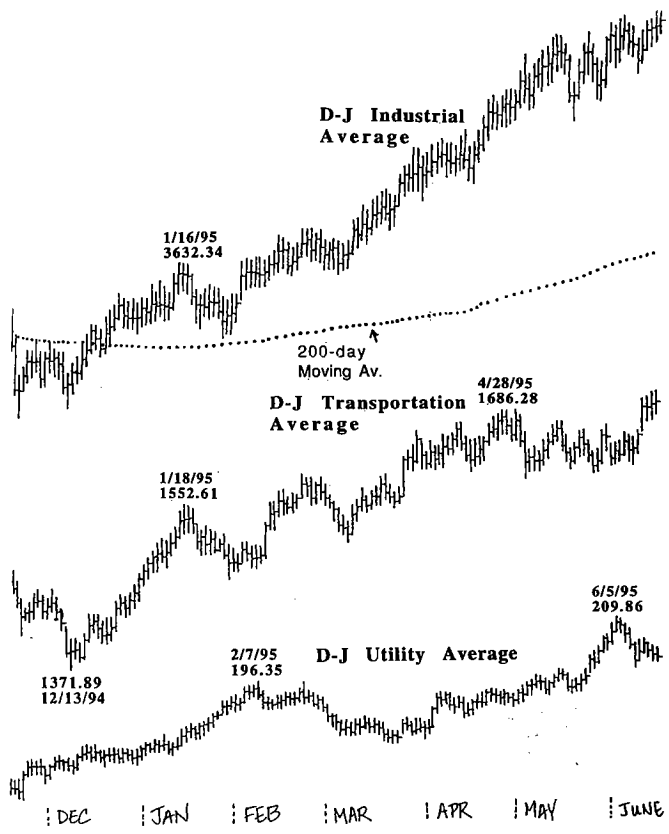
The best stock in the world can become flagrantly overvalued. And the same great stock can become drastically undervalued. It all depends on the psychology of the times. In a bull market investors become confident, then they become over-confident, and finally they become ecstatic. That's when they take the price/dividend ratio to the above-30 level. Recently, for the first time in history, enthusiastic buyers have been willing to pay **40** dollars for every dollar of Dow dividends.

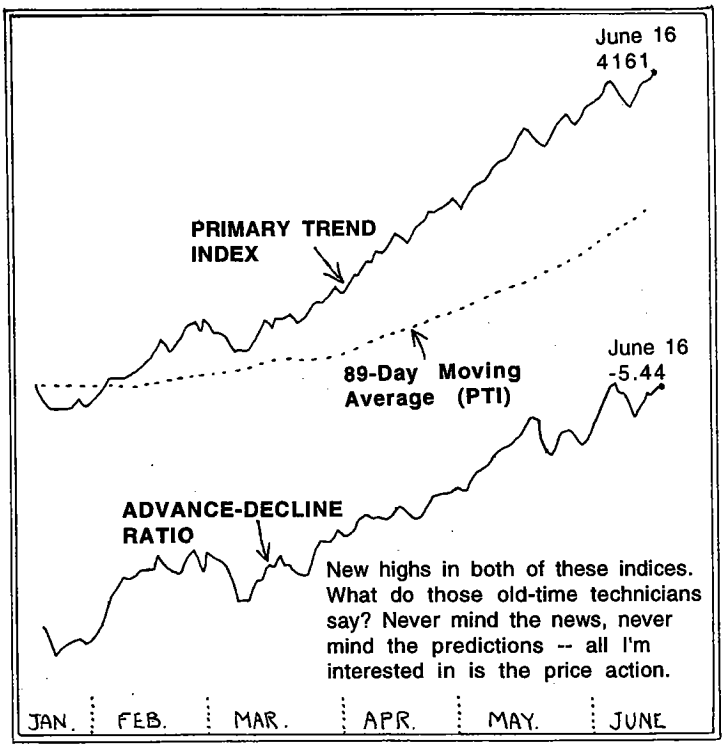
Consider this comparison: In 1932 dividends on the Dow were $4.62. At the 1932 low the Dow sold for 41.22. This meant that the Dow was selling for less than **9** times its dividends. That was super-bargain time in the stock market. It represented an incredible extreme in pessimism. Could it happen again -- ever? Who knows? But remember this, three years previous that same stock market was surging into never-never land -- at the fabled 1929 high.

Old timers (and I'm one) have had a hard time loving the 1995 situation. A major reason for our reluctance is the micro-yields on the leading stock averages. Buying or even holding stocks when the Dow's yield is below 3% has, in the past, been a bit dicey. But when the Dow yield is down to 2.47% where it was a few weeks ago, the situation moves beyond dicey -- it becomes a battle against historical probabilities.

So much for recent history. So much for what the market's done since last December. The important question at this point is what may lie ahead. So let's do a bit of analyzing.

The new Dow highs have been confirmed by two important and widely-watched composites, the S&P 500 and the NYSE Composite. Confirmation by these two broad indices constitutes a major plus. Against that, we have a few long-term technical problems (aside from dangerously low yields). They are the D-J Transportation Average, the D-J Utility Average and the daily advance-decline ratio. Although moving up in direction, all three have still not confirmed the new highs in the Dow.





However, an important and constructive event occurred on June 14. The failure by Transports to better their April 28 peak of 1686.28 has been a problem, a technical headache. But on June 13 the Transports surged above their April 28 high, to close just a fraction above the 1700 level. Thus, on at least a near-term basis the Transports did confirm the new record highs in the Dow. So let's leave the Transports alone for a while.

Turning to the page 2 chart, note that my **Primary Trend Index (PTI)** has continued to advance to new highs. The advance has, in fact, been one of the most relentless in PTI history (going back to 1971). The PTI doesn't care about yields, odd-lots, put/call ratios, short interest activity, margins, sentiment, valuations or historical comparisons. No, the PTI moves up or down strictly on the basis of **daily market action**. So far, the action continues bullish.

The PTI is constructed so that if it is rising on a trend basis, the broad market cannot go down -- it can only move sideways to higher. Conversely, when the PTI is declining on a trend basis, it can only go sideways to lower.

As long as the PTI and the A-D ratio are rising (page 2 chart) the broad trend of the market must be labeled as bullish. *But remember, this has nothing to do with whether stocks are on dangerous grounds or not -- it simply defines direction.*

YIELDS: I don't want to belabor the yield concept, but my friends at *Growth Fund Guide* have just published a study on S&P yield that deserves attention. *GFG* notes that since 1882 there have been six instances in which the S&P sold for more than 30 times dividends. Each of these yield extremes were associated with a market decline of 20% or more (*Growth Fund Guide,* PO Box 6600, Rapid City, SD 57709).

SUCCESSIVE P/D RATIO PEAKS
ABOVE 30 TO 1 SINCE 1870

Peak	P/D Ratio	To Market High Mos.	To Market High %	To Market Low Mos.	To Market Low %
3/1882	31.75	-9	-4.9%	27	-20.4%
4/1889	34.24	7	+1.1%	7	-20.0%
9/1929	34.72	0	0.0%	33	-86.2%
7/1933	37.42	0	0.0%	20	-33.9%
1/1973	37.73	0	0.0%	21	-48.2%
8/1987	38.10	0	0.0%	4	-33.5%
Average		-0.3%	-0.6%	18.6	-32.3%
5/1995	38.74	?	?	?	?

The current low yield situation is the seventh in the price/dividend series. One fascinating facet of this study, one that I had not perceived before, is that *each of the seven successive price/dividend peaks has been higher than the preceding.*

Recently, on May 8, the S&P price/dividend ratio rose to a new high of **38.74 to one.** This represents the highest price ever paid for one dollar of S&P dividends.

GFG has coined a name for the area in which the S&P P/D ratio surpasses the preceding S&P P/D ratio. They call this the "Overly Optimistic Zone." We are definitely there now.

In the past, buying or even carrying stocks in the Overly Optimistic Zone has proved costly, and in a few cases -- disastrous.

To review -- the last peak in the S&P price/dividend was 38.10 reached in August 1987. The recent price/dividend ratio was a record 38.76.

Market writers and the public are now very confident. Money continues to pour into the market in this area of extreme overvaluation. The equity mutual funds are enjoying a seemingly never-ending torrent of billions of dollars. Many market commentators are saying that "stocks are not really that high," or that "this time it really is different." New mutual funds, corporate mergers, new issues and stock buy-outs are making the financial headlines daily. Financial publications are proliferating. The heat in the market boiler is intense. Articles are appearing suggesting that recessions and even bear markets are a thing of the past. There's a "new era" feeling in the air. Russell reaction: be careful, very careful.

Off-Beat Note: One of the principals of *GFG* some years ago sent me a little Cactus (Opuntia fragilis) that he had collected on the plains of S. Dakota. I'm a Cactus collector, and I planted the single pad in my garden. This little plant is now a one-foot wide patch made up of hundreds of heads. The little prickly pear obviously loves California. Opuntia fragilis has the most northern range of all Cacti, being found as far North as the Peace River in Canada. By the way, most people don't realize it but the Cactus family is indigenous ONLY to the Americas. Those pictures you see of Jesus on the desert riding a donkey past patches of Cacti are wrong. Cacti were only introduced to other continents during the 1700s. Jesus never saw a Cactus.

INVESTMENT POSITION: The stock market continues to take any and all news bullishly. As I stated previously, there is a "new era" feeling, a "this time it's different" attitude in the air. This kind of mood can be highly infectious. Don't ignore it; don't fight it; don't denigrate it. It's a deceptive mood and it's a dangerous move, but it's also what's happening.

?

The excellent *Hussman Econometrics* publication has some very interesting things to say about the markets, and I want to bring them to the attention of my subscribers. *Hussman* notes that from August '29 through November '50 stocks earned an annual return of only **3.5%.** Again from January '65 to September '74 stocks earned a total of **0%.** And again from December '72 to August '82 stocks earned a total of just **3.9%.** States Hussman, *"These and other extended periods of below average yields had one thing in common: they all began at dividend yields at or below 3%."* [*Hussman Econometrics,* (800)487-7626].

Of course, this is simply another way of citing history and making sense of it. When you buy stocks when average yields are below 3%, the *probabilities* suggest that over the next five to 10 years your returns are going to be below average. Today, with average

yields at record lows of 2.5%, the probability of stocks providing good returns over even the next five to 10 years are poor.

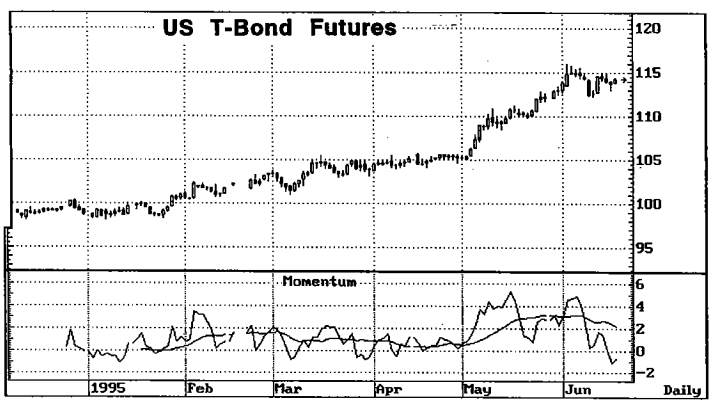
In view of this, it's amazing to me that equities continue to be purchased at an almost frantic rate. It's equally fascinating that with future probabilities of profits so poor, stock market literature has turned white-hot bullish with many analysts now advocating buying and holding equities for decades or even for a lifetime.

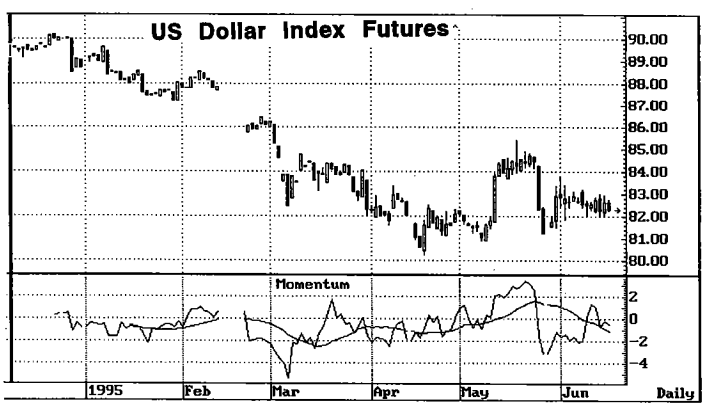
If the Averages were to turn down from here, history would justify a question of just what it is that we've been watching. On this basis, I continue to place a question mark in the box. Please study the statistics above carefully. It's an excellent history of what happens over an extended period of time when average stock yields are in the 3% or lower zone.

CHARTS: On this page I'm showing a daily chart of the **Treasury Bond** contract, showing the big rise which has carried through the first half of 1995. The bond advance has been based on weaker economic statistics and the hope the weak statistics will spur the Fed to drop interest rates. The momentum line suggests that the bond rally is running into resistance. Momentum tends to precede price.

The second chart traces the drastic decline in the **Dollar Index,** to an April low just above 80. A sharp rally in May carried the Index to the 84-85 area, and from there the Dollar Index has lapsed into a trading range. Momentum for the Dollar Index has died down, and my guess is that the dollar may now "rest" for a while.

I also think there's a decent chance that the Dollar has set an important low at just above the 80 level. The other two major currencies, the yen and the D-mark, are now subject to negative pressures. Japan is dealing with major economic troubles, which is an obvious negative for the yen. As for the D-mark, the rumor is the German rate may be lowered. Lower rates would diminish the D-mark's attractiveness in the international markets. Both of these suggest a stronger dollar or at least a holding dollar over coming months. Of course, a major potential negative for the dollar would be the failure by US politicians to address the deficit problem.





NOTES & QUOTES: Europe continues its quest for a single, unified currency. The French like the idea, but the Germans are reluctant to give up their beloved and powerful D-mark in favor of a new single currency. If a new currency does emerge, the Germans want to change the name of the new currency from the current Ecu to the Franken. One problem -- when Ecu is spoken quickly in German it sounds like "one cow." In English Franken sounds like the first part of Frankenstein ("The Monster Currency?"). Franken was the name of an early German currency that flourished long before the D-mark, so that many Germans still have a romantic attachment to the name Franken. One more thing -- the Germans would like the future European central bank of Europe to be located in Frankfurt.

* *

Japan's troubles: Japanese banks are now carrying over $400 billion in bad loans, most of it in bad real estate investments. (Note: during 1987-90 the Japanese bought $57 billion in US property.) Consequently, the Japanese are selling their US investments as fast as they can. Last year the Japanese sold $6.4 billion of US properties; this year the total looks more like $10 billion. Meanwhile, the Mitsubishi Estate company has thrown Rockefeller Center into bankruptcy. Mitsubishi has also sold 80% of its interest in MCA. Many Japanese real estate ventures are being sold for far less than their original construction costs.

* *

Japan's attitude regarding apologizing for their nation's barbarous behavior during World War II tells you a lot about Japan's real feelings toward the West. One group, led by Prime Minister Murayama, actually acknowledges Japan's role in the war. The other group, mostly members of the Democratic Labor Party which has ruled Japan for most of the last 50 years, will not apologize and continues to claim that Japan's purpose in the war was to "liberate Asia from Caucasian domination." Aside from the infamous "Death March" and the extreme cruelty with which the Japanese treated Allied prisoners, Japan forced 200,000 Korean women and young girls into prostitution. These so-called "comfort women" served the Japanese military's "sexual needs" during the war. Now these women want reparations from the Japanese government for their suffering. But my point is that a large number of Japanese still cling to the concept that they are under Western or "Caucasian domination," and that their war with the West is still in force (although, obviously, the war is now economic rather than military). In brief, many older and still powerful Japanese still have only contempt for the West and particularly for the US.

* *

Russell advice on buying a used (pardon me, pre-owned) car. My suggestion -- buy a four to eight year-old Mercedes, preferably one of the 300E series. When the 300E originally came out in the mid-80s, all the car magazines raved about it. The 300Es are still marvelous cars, and this includes the older ones. You can buy a 1987 or '88 300E four-door sedan (hopefully with low mileage) for around $10 to $13 thousand. With good upkeep, these cars can run for 300,000 miles or better (one fellow ran a Mercedes for over one million miles). So my feeling is that the best economy buy on the market is a second-hand Mercedes in the 300E series. These cars are made right, perform beautifully and last "forever." A poll in Britain came out with the following: 54% thought the best cars came from Germany, 17% thought Japan produced the best. As for quality, 31% said Mercedes was best, while rival BMW came in for second place at 21%.

* *

The GOP better win its battle to reduce (eliminate?) the federal deficit. Why? Well, consider this. The latest figures show that the US national debt is now $4.904 trillion. Exactly one year ago it was $4.609 trillion. This means that $294 billion have been added to the federal debt over the last year or at the rate of **$805 MILLION A DAY.** And you're wondering why the dollar has been weak?

* *

I've mentioned Peter Brimelow's controversial, politically incorrect new book, *"Alien Nation."* In an interview in the *San Diego Union,* Brimelow states that "for the first time in American history we have a legal immigrant inflow which is less skilled than the native born population as a whole. It also skewed the ethnic balance because the 15 countries that immigrants came from were

mainly Third World countries, in fact, over half of them are Spanish speaking. That is a big contrast with the polyglot immigration inflow of the early 1900s when no one group was able to build up into a large linguistic minority as has in fact happened now with the Hispanics. In the next century, about 2050, whites will go into the minority. This is a demographic transformation without precedent in the history of the world."

* *

China experts at the Australian National University believe that China will, by the year 2005, be the world's second largest economy and the largest trading partner of each of its neighbors. The study states that China will also dominate world markets for labor-intensive commodities with production shifting gradually to inland China areas.

FINANCIAL TIMES FRIDAY JUNE 2 1995

NEWS: ASIA-PACIFIC

China 'will dominate markets' by 2005

By Tony Walker in Beijing

China by the year 2005 will be the world's second largest ... coastal provinces will become centres of high value production, and deeply integrated into the wider East ... sectors are rapidly increasing their share of total activity. Savings rates are now second only to Singapore in East Asia, ... But the report also forecast a bumpy road ahead for China, where growth at an average of about 9 per cent will "continue to be overseen marked by ... to the current period of exceptional strength." Amid a strong export performance, China has built up its foreign exchange reserves to about $60bn ... Problems of state enterprise deficits fuelling monetary growth and inflation present China with its biggest challenges, however. Other challenges involve ...

Experts also believe that China will outpace India as it moves into full-scale capitalism. One reason is that China has had a 15-year head start over India in capitalism. In the meantime, Russia seems to have moved into a weird brand of "Mafia-Capitalism." From what I read, Russian criminals have moved into almost every area of Russian business, and the boldness and visibility of crime in Russia is almost breathtaking.

* *

The Clinton Administration's policy of devaluing the dollar to help the trade deficit just hasn't worked (did anyone think it would?). Which explains the Clinton group's ridiculous push to force Japan to buy a scheduled number of US cars. Study these statistics -- between 1985 and 1995 the dollar dropped from 250 to 85 yen. During the same period the US trade deficit with Japan actually worsened, reaching a record $66 billion in 1994. And if products manufactured outside Japan are included, the shortfall last year reached an estimated $90 billion, 50% above the 1985 level. The US dollar's 20% drop against the yen in 1995 has had virtually no effect on Japanese goods. The rising yen has forced Japan to move factories off-shore to low-wage nations. Also, since oil and many raw materials are purchased internationally *in dollars,* the sky-high yen serves to vastly lower Japan's bill for raw materials.

* *

The conservative press can't stand Clinton or Hillary, but the conservative cartoonists are having the time of their lives with the White House pair. Here's an example:

HILLARY, I'M WORRIED... MY PRESIDENCY IS IN TROUBLE. I GET THE FEELING NOBODY'S LISTENING TO ME ANYMORE!!
HILLARY?...
Z
GARY MARKSTEIN

* *

Guns: This from the latest issue of *Guns and Ammo* magazine: 50% of police gunshot wounds are a result of police individuals shooting themselves. And according to NYPD records, only 19% of shots fired by NY cops at perpetrators hit their intended target. The criminals do even worse; only 7.4% of their shots hit their targets. Sorry if you're a fan of NYPD Blue, but the police are just not that good at handgun accuracy. For that matter, records show that the majority of police shootings occur while the cops are within six feet of the bad guys. **Russell comment:** My own guess is that there is a psychological element to all this poor marksmanship. Most people have a conscious or unconscious wish not to kill someone else. This pertains even to police. The criminal possesses an even greater reason to miss. He knows that if he kills another person (particularly a cop) he's on the way to a death sentence. **Note:** NYC now has a record 38,310 police; London, serving roughly the same population has 28,287 police. And selected London cops, for the first time, are being armed (with semi-auto pistols).

* *

Summer is a comin' on. Here are some things to think about. Over 600,000 Americans will develop skin cancer this year, and about 8,500 of them will die from melanoma. One in six Americans will develop skin cancer in his lifetime. A baby born today will have a 12 times higher chance of developing malignant melanoma than someone born 50 years ago. Many scientists believe that the depletion of the ozone layer is responsible for the rapidly rising rate of skin cancer. Conclusion -- stay out of the hot sun and slather on those sun screen lotions.

* *

"Home Flopping Network" is what the *Washington Post* calls it. The rosy predictions for home shopping or electronic retailing via TV have not panned out. People are questioning whether you can really find a bargain on TV. But for whatever reason, the public is not wild about buying via the tube. Barry Diller bought his stake in QVC at around $28 and sold out at around $70 for a $100 million profit. Last summer QVC launched Q2, a new upscale channel that was supposed to be more entertaining and informative. It was also supposed to deal with higher-priced, even luxury merchandise. It hasn't been a success. So far, Q2 has racked up losses of $15 million and is available in only 10 million household cables. And its viewers are spending less per family than QVC. So buying via TV may be the wave of the future, but so far, it's the wave that hasn't panned out.

* *

As veteran readers know, I've been ranting and raving against our idiotic and complicated current income tax system. Rep. Dick Armey of Texas espouses a flat tax, which would greatly simplify the way we pay our taxes. This simple little form shows you how you would make out your taxes under Armey's system. House Ways and Means Committee Chairman Bill Archer also wants to jettison the current tax system. He prefers a consumption tax, which he states, will completely eliminate the IRS. This tax would discourage consumption while encouraging savings. It would save approximately $300 billion in costs for businesses and individuals figuring out their taxes (a process that would save billions of man hours of useless work). The consumption tax would also collect from the huge underground economy. I believe one thing is clear -- the current tax system has become impossible; everybody hates it. Its time to go is fast approaching. A new tax system will be a basic part of the '96 Republican platform. But wait, even some Democrats are giving in and climbing on the flat tax/consumption tax band wagon. They recognize the tremendous political plus of throwing the IRS out and instituting an entirely new and different system.

Form 1 — DICK ARMEY FLAT TAX FORM — 1998

Your first name and initial / Last name		Your social security number
Present home address		Spouse's social security number
City, Town or Post Office Box, State and ZIP code	Your occupation / Spouse's occupation	
City, Town or Post Office Box, State and ZIP code		
1. Wages, Salary, and Pensions	1	
2. Personal Allowance		
a. $26,200 for married filing jointly	2(a)	
b. $13,100 for single	2(b)	
c. $17,200 for single head of household	2(c)	
3. Number of dependents, not including spouse	3	
4. Personal allowances for dependents (line 3 multiplied by $5300)	4	
5. Total personal allowances (line 2 plus line 4)	5	
6. Taxable wages (line 1 less line 5, if positive, otherwise zero)	6	
7. Tax (17% of line 6)	7	
8. Tax already paid	8	
9. Tax due (line 7 less line 8, if positive)	9	
10. Refund due (line 8 less line 7, is positive)	10	

* *

Japan's current account surplus dropped 34% in April compared with the same month last year. This is the *fifth month in a row* their

surplus dropped on a comparison basis. If this keeps up, it could put pressure on the yen in favor of the dollar (due to increasing exports, the US current account deficit is decreasing).

* *

The question of the hour -- will Newt run for the Presidency or won't he? Writes Jeffrey Hart in the *Conservative Chronicle:* "The reason why Gingrich's preference not to run might be brushed aside is that politics does not love a vacuum, and that is what the Republicans are presenting as they prepare to challenge Clinton. The Republican front-runner by far is Bob Dole. He is about 30 points ahead of the rest of the field. But the feeling is becoming widespread that Dole cannot beat Clinton next year. Wise heads among the Republicans are aware that Clinton is a savvy and slippery contender. He will be the weakest incumbent to run for president in modern history. No one trusts him. His administration is scandal-ridden, not to mention what might soon come down on his own head from the Whitewater prosecutor. His domestic policy is non-existent, except to dig in his heels and save every federal agency and expenditure he can. Yet, he is a survivor, a political Houdini, who cannot be underestimated. He has survived personal scandal that would have sunk a lesser artist. He is an energetic and skilled debater. He has shown how he can exploit the Oklahoma bombing. He wants to campaign against 'the rich'. He can talk his way out of anything but a criminal indictment. Clinton would run rings around Dole in debate. Dole is old and lacks Clinton's energy and verbal gifts." **Russell comment:** I have to agree with all the above. To me, Dole acts depressed and unhappy, and he definitely lacks charisma. Clinton is sneaky, without any real convictions and evokes no respect from either the politicians or the people. But personally, I'd pick Lugar, Gramm, Wilson or Specter to run instead of Dole. It will be fascinating to see how events work out.

> WASHINGTON — Recognizing the appeal of sweeping tax reform, senior House Democrats broke with the Clinton administration yesterday and joined Republicans in calling for complete overhaul or replacement of the current income tax.
>
> "It's time for massive, radical change," Minority Leader Dick Gephardt, D-Mo., told the Ways and Means Committee. "When I go door to door in my town of St. Louis, . . . I find a deep anger and a resentment of a system that favors the tax experts and insiders at the expense of average families."
>
> Gephardt, whose testimony came during the last of three Ways and Means hearings on tax law revision, said he would unveil his own proposal next month. He promised "a fundamental overhaul of our entire tax code" to rival such Republican plans as House Majority Leader Dick Armey's flat-rate income tax and Ways and Means Chairman Bill Archer's consumption tax.

* *

Donald Trump is b-a-a-ck, looking for money again. Trump Hotel and Casino Resorts plans to open a riverboat casino in Gary, Indiana. Trump sold 10 million shares of stock at $14 a share, and then $155 million in bonds. Wall Street was a bit taken aback by the rate Trump had to pay on the bonds -- 15.5%. And yes, they are considered "junk bonds." But listen, you have to hand it to Trump, he can still sell securities to the public. And he's still in action, despite his usual sea of troubles.

* *

A new book has been published about the 1939 World's Fair in NYC (the fair was called "A Century of Progress"). Going to that fair was one of the thrills of my young life. I'd take the subway to the last stop in Flushing, then walk a few blocks to the Fair. There you could see the giant Trylon and Perisphere, plus dozens of fabulous exhibits -- Billy Rose's famous "Aquacade," Guili Guili, the magician, and the amazing "World of Tomorrow" exhibit, which I believe was put on by GM. (Or was it GE?) At any rate, this was a huge model of the "City of Tomorrow" with its futuristic roads in space, its breath-taking futuristic buildings, its gorgeous tree-lined parks, its flying cars, its picturesque walks. Sadly, it never came to pass. The big "cities of tomorrow" are here today, and they are nothing like the marvelous city promised at the '39 Fair. Today most major cities are on the squalid side -- deeply in debt, dangerous at night, filled with the usual homeless and vagrants, and lined with all types of bulging garbage bags and battered cans.

Nevertheless, there has been a tremendous amount of progress in certain areas since that magical '39 fair. I think the greatest progress has been in medicine and in electronics (computers). When I was a kid, there were no antibiotics (the sulfa drugs came in during WWII). In the 1930s when you had an infection it was no laughing matter. I had a severe ear infection in 1932 that quickly developed into a mastoid infection (this is an infection of the mastoid bone behind the ear). In those days they performed a mastiodectomy, which meant cutting out the infected portion of the bone. I was near death. My parents contacted the top surgeon in NYC, but he refused to take me (he didn't want a near-death case on his hands). Another doctor performed the operation, and I survived (I spent 31 days in the hospital). Not much fun for an eight year-old boy, but that was life "in the good ol' days." Today, few doctors have ever seen a mastoid infection (ask your own physician if he's ever seen one).

* *

Does it make a difference where you live? Sure it does -- just look at this rundown on highest and lowest state taxes. But figure this one, N. Dakota has one of the highest tax rates while S. Dakota has no state income tax. Why live in N. Dakota? The best no-tax state is Nevada -- no state corporate tax, no state income tax, no state inheritance tax -- but a lot of heat during the summer.

HIGHEST RATE

State	Highest income tax rate	Per capita average of taxes paid
North Dakota	12.0	$197.93
California	11.0	551.09
Montana	11.0	425.50
Hawaii	10.0	787.47
Iowa	9.9	521.33
Oregon	9.0	786.02
Minnesota	8.5	735.43
Maine	8.5	496.32
New Mexico	8.5	326.07
Idaho	8.2	544.38

LOWEST RATE

State	Highest income tax rate	Per capita average of taxes paid
Colorado*	—	494.88
New Hampshire***	—	31.80
Tennessee***	—	18.16
Alaska	0	0
Florida	0	0
Nevada	0	0
South Dakota	0	0
Texas	0	0
Washington	0	0
Wyoming	0	0

* *

I just got a letter from a fairly new subscriber who suggested that I "cut out the ramblings and the reminisces and stick to the markets". On the same day, I got a call from a subscriber who said that he "loves Notes & Quotes" and he thinks I should write screen plays as well as these Letters. Well, you can't please everybody, and I've long ago stopped trying to please ALL my subscribers. I write six long pages every other week, and a portion of each Letter deals with items that are not strictly about the market. But look -- I've been writing these Letters since 1958 and I've never been bored doing it. So please indulge me, and if you dislike Notes & Quotes just skip 'em or toss that page away. Life is more than just the markets.

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Show Biz: According to the *NY Times,* of 29 B'way shows this year, only four made money while six were complete flops . . . Faye Resnick's book on O. J. Simpson has sold an amazing one million copies in hard cover . . . Jim Carrey, Hollywood's current favorite comedian, could make up to $17 million in a new movie slated to be made by Columbia . . . Showtime Event TV is greedily talking $45.95 to $54.95 for the Aug. 29 Mike Tyson vs. unknown Peter McNeeley fight. Tele-Communications, Inc., the nation's largest cable operator, complains that the price is too high, and therefore they will refuse to carry the fight. Other cable operators agree and are up in arms . . . Turner Broadcasting has announced plans to bring out a new TV business channel to compete with CNBC. The Turner channel will start next January. Both will be on a 24-hour basis. Good bye Letterman and Leno.

* *

My 14-year old daughter just graduated from middle school. I looked over the names in her class. Gone are Doris, Sue, Carol and Ann. Here are some of Lauren's friends: Alexis, Alyssa, Danielle, Allegra, Jennelle, Jessica, Angel, Monique, Desiree, Deora, Tara, Jasmine. Ah, glamour.

GOLD: You know, it's simply amazing. Over the last year the high for gold (the metal) was 409 and the low for gold was 345. This means that *volatility* (percentage of movement high to low) was only 17%, lowest in almost a quarter of a century (and it was roughly a quarter of a century ago that gold first moved into the free market). Over the last seven months the range for gold was even tighter, with volatility dropping to an incredibly low **7.4%.**

Commodity traders know (or they should know) that volatility is like the weather -- after the calm comes the storm. And after the storm comes the calm. What I'm saying is that following this extraordinary period of very low volatility, there "should be" a period of high volatility. Traders who make a living trading commodities know that you sell high volatility and buy low volatility. On this basis alone, gold should be bought here. As far as gold is concerned, we are still in the area of "the great calm."

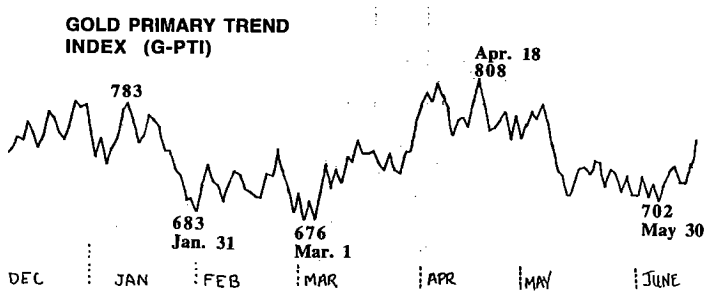
My Gold Primary Trend Index (G-PTI) has been mildly encouraging, as you can see on the chart. It still has a way to go on the upside before it takes on a clearly bullish look, but on June 15 the G-PTI did rally to its highest level since early May. From the bullish standpoint, what gold-philes want to see now is the G-PTI bettering its April 18 peak of **808.**

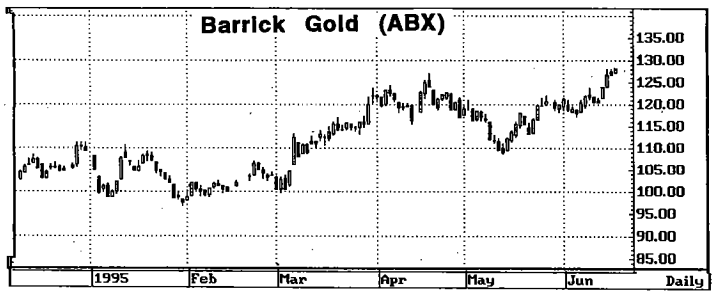
At this point, the *gold stocks are leading the metal on the upside.* On April 18 (see accompanying chart) the Philadelphia Silver/Gold Index (XAU) broke out above its April peak, which again must be considered highly constructive action.

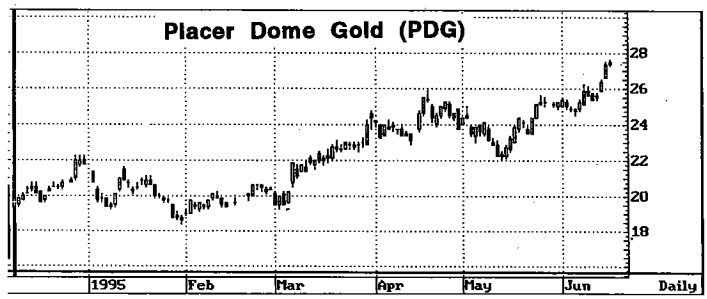
Gold may have been spurred by last week's comments from Leanne Baker, precious metals analyst for Salomon Bros., when she stated,*"South African mine production is faltering more than most market observers anticipated, and worldwide mine production seems likely to be steady at best for the next couple of years."* At the same time Baker said that demand from China *"was twice as high* as the 203 metric tons estimated by Gold Fields Mineral Services." **Russell comment:** No question that the supply/demand equation for gold is now positive. Actually, there are rumors of a major strike coming up in S. Africa, which again would put upward pressure on gold prices. But in the end, gold moves on sentiment. People buy gold when they want a position in real money.

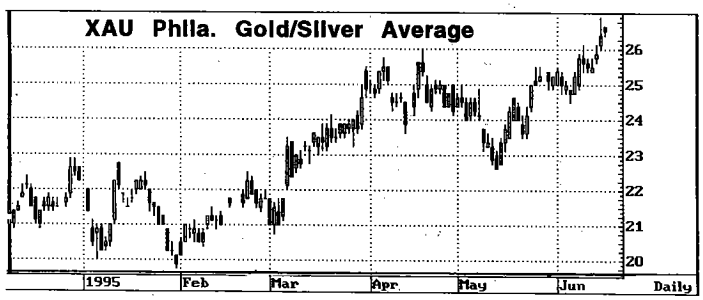
Mark Twain penned a rather cynical definition of a gold mine: *"It's a hole in the ground with a liar sitting on top of it."* That may be true for a lot of fly-by-night mining outfits, but believe me, there are some fine, legitimate producers. Two major gold producers who are very legitimate are the clear leaders at this time. They are **Barrick Gold** and **Placer Dome,** and I've included charts of both on this page. Both are aggressive leaders in the gold picture and can be held by all subscribers.

Note: The monthly chart of gold (not shown) appears to be a huge saucer bottom pattern, denoting accumulation. Gold could fool on the upside yet.









LATE NOTES: *"Nobody knows anything,"* that's the time-tested Hollywood adage. Proving that the adage works, "Congo," a new schlock film (panned by literally every critic), shocked Paramount and Hollywood with a record three-day opening of $24.6 million (bigger than the Forrest Gump opening). Do Wall Street analysts know any more than their Hollywood counterparts? Well, you remember Wall Street's reigning motto,*"The market can do anything."* Which really explains this year's action.

As this is written, the stock market continues to push north (record Dow highs produced almost daily). "The percentage of Undervalued Blue Chips" (see page 1 statistics) is now down to a record low 6%. But let's face it -- overvaluation hasn't put a dent in this market -- so far. Pressure is increasing on many of the mutual funds to keep up with the S&P (a large majority of them have not), and this generates almost frantic buying.

About Face (again): Meanwhile, even Democrats are becoming fed up with Clinton, as the President (unbelievably and against his party's wishes) conjures up his "new" 10-year plan to eliminate the federal deficit. What's the Clinton slogan? It's, "Me, too, and later."

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